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SUBJECT: TROUBLED NZ FM STEPS ASIDE; PRESSURE REMAINS ON PM CLARK

WELLINGTON 00000287 001.2 OF 002

¶1. (SBU) Summary. On August 29, Winston Peters agreed to step down as New Zealand's Foreign Minister pending investigation over fraud allegations involving his New Zealand First party. PM Helen Clark has assumed Peters' portfolios but left the door open for him to resume his ministerial duties if cleared of wrongdoing. With the prospect of being called before Parliament's Privileges Committee regarding her knowledge of Peters' financial affairs, Clark herself faces scrutiny over this matter. National has ruled out working with Peters in a future governing coalition, which many view as a political gamble given the tightening of the political race between Clark and Key. End Summary.

Peters Steps Aside as FM; Clark Takes Over

¶2. (SBU) On August 29, Prime Minister Helen Clark announced that Winston Peters had voluntarily stepped aside as New Zealand's Minister of Foreign Affairs while allegations of fraud relating to political donations to his party are investigated. Peters and his New Zealand First Party (NZ First) have been subjected to allegations of providing misleading statements about party donations from several wealthy contributors and financial misconduct for several months. On August 28, New Zealand's Serious Fraud Office (SFO) launched an investigation into NZ First finances, and what happened to donations made to the party by wealthy New Zealand businessmen. Said Clark, "It's very clear to me and very clear to (Peters) that the appropriate thing is for him to stand aside from his portfolios while the Serious Fraud Office conducts its investigation."

¶3. (SBU) In addition to the SFO investigation, the parliamentary privileges committee is looking into whether Peters should have declared a donation paid to legal costs he incurred arising from the 2005 election. Peters has continued to deny any wrongdoing and has called all allegations against him and the party "vile, malicious and malevolent." At Peters' request, Clark has taken over his ministerial responsibilities, which also include the portfolios of racing and senior citizens, in the intervening time. Clark, however, suggested that the door is open to Peters to resume his ministerial duties should he be cleared by the SFO.

Face-saving Gesture Ensures Peters' Support

¶4. (SBU) By taking on Peters' ministerial portfolios at his request, Clark spared him the humiliation of firing him and distributing his portfolios between more junior ministers. Some commentators speculated that a change in Peters' ministerial circumstances would damage the hitherto good relationship between Clark and Peters and thus destabilize the Government. However,

Clark's face-saving gesture, in addition to her strong rapport with Peters, was instrumental in maintaining NZ First support for the Labour-led Government. As a result, NZ First has promised its support for the Government's Emissions Trading Scheme (ETS) legislation, expected to pass parliament this week.

National Will Not Work with Peters

¶4. (SBU) While Clark maintains support for the besieged Peters, the opposition National Party has explicitly ruled out working with him in a National-led Government. On August 27 and in a calculated political move, National leader John Key announced that Peters would not have a role in any future National coalition regardless on whether he is cleared of any wrongdoing. Most political analysts see this as a significant political gamble, as Key may not have the luxury of turning away potential coalition partners in a post-election environment where neither Labour or National gain a clear majority. At the moment, Key is banking on National maintaining its lead over Labour in the polls and the very real possibility that NZ First will not get enough votes to return to parliament at the election. Key has also calculated that public patience with Peters has run out.

¶5. (SBU) Key's categorical rejection of a post-election deal with Peters, no matter the election outcome, has effectively bonded NZ First to Labour. National is now expected to campaign that a vote for NZ First is a vote for Labour, which could damage support for both NZ First and Labour. Many NZ First supporters prefer a coalition with National and may shift their votes to National. Another potential beneficiary of NZ First voters may be the ACT party, whose leader (Rodney Hide) has been leading the charge against Peters by submitting the complaint against Peters to the SFO.

WELLINGTON 00000287 002.2 OF 002

Clark's Actions Face Scrutiny

¶6. (SBU) The fallout from the Peters donation affair has also tainted Helen Clark, and prompted the NZ media and political rivals to question her integrity. Clark has faced accusations that she shielded Peters from facing tough questions in Parliament, and applied a double standard for a minister whose support her Government needed when she took a tougher line against Labour Party ministers who committed lesser offences, and withheld prior knowledge about an alleged offence committed by Peters for six months. Clark is fighting suspicion that her reluctance to come down hard on Peters suggests she is places greater importance on politics rather than principle.

Peters' Actions Concern the Greens

¶7. (SBU) Clark also faces fallout over the Peters affair from the Greens, which could affect her ability to form a government after the next election. Present polling suggests that Labour would want NZ First to return to parliament in order to get its support as it seeks to form a governing coalition. The Green Party, a key traditional ally of Labour whose support it would likely rely on to form the next government, has expressed unease about a post-election governing arrangement that would include NZ First. On August 29, the co-leader of the Green Party, Jeannette Fitzsimons, revealed that she would find it difficult to be in government with Peters. Her co-leader, Russell Norman, also stated that the Greens would find it "incredibly difficult" to work with Peters in government.

¶8. (SBU) Comment. This week, Parliament's privileges committee will hear further testimony surrounding the New Zealand First donation controversy. On September 9, Owen Glenn, one of the wealthy New Zealand donors at the center of the controversy, will give his version of events before the privileges committee; Peters is scheduled to appear the same day. Glenn's testimony could prove damaging to Peters if, as expected, it differs from Peters' recollection. Clark also may be called to give testimony before the committee, but Labour MPs are working to prevent her from being called. It remains unclear how this issue will ultimately affect

both Peters and Clark at election time; at the moment, it's the media's favorite political sideshow and has effectively sidelined other major issues. End Comment.
McCormick